

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 1390 – SB 1671

February 20, 2014

SUMMARY OF BILL: Requires, for purposes of assessing property taxes due, any property qualifying for low-income housing tax credits under Section 42 of the Internal Revenue Code to be valued based on the actual income derived from the property. Prohibits the value of such properties from being adjusted based on the amount of any federal low-income housing tax credits awarded for the development of the property. Requires the owner to apply to the county assessor prior to March 1 of each tax year and submit an application on forms approved by the Division of Property Assessments.

ESTIMATED FISCAL IMPACT:

Decrease Local Revenue - \$1,944,300

Assumptions:

- According to the Tennessee Housing Development Agency (THDA) the provisions of the bill will not fiscally impact the agency.
- According to information provided by the Office of the Comptroller of the Treasury (COT), the provisions of the bill will have no fiscal impact to state government however will result in a decrease in local government property tax revenue.
- According to COT, currently the adjustment of tax credits is utilized as an element of additional value to Section 42 developments and excluding that value will result in a lower assessment on the property and a subsequent reduction of the property taxes that would be billed and collected at the county and city level.
- According to COT, currently Low Income Housing Tax Credits (LIHTC) are distributed over a 10 year life, discounted for market value, and then added to the property appraisal for the Section 42 housing complex. The assessment level for commercial properties of 40 percent is then applied to the property to calculate the assessment value. The assessed value is then multiplied by the property tax rate to determine the total tax liability for the property.
- Tax credits awarded to Section 42 housing projects statewide from 2004 to 2013 totaled approximately \$1,524,967,200 or \$152,496,720 annually (\$1,524,967,200 in tax credits / 10 year period).

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- According to COT, the discount rate of 0.85 is applied for the calculation of the market value of the tax credits awarded, resulting in a value of \$129,622,212 ($\$152,496,720 \times 0.85$ discount rate) for the purpose of calculating property taxes owed.
- According to COT, applying the 40 percent assessment level for commercial properties results in an assessed value of \$51,848,885 ($\$129,622,212 \times .40$). Using the statewide average property tax rate of \$3.75 per \$100 of assessed value results in a total recurring decrease in local revenue of \$1,944,333 [$(\$51,848,885 \times \$3.75) / 100$].
- There could be secondary economic impacts to local government should owners of Section 42 housing projects opt to purchase and develop further projects as a result of the provisions of this bill; however, any such impact cannot reasonably be quantified.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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